

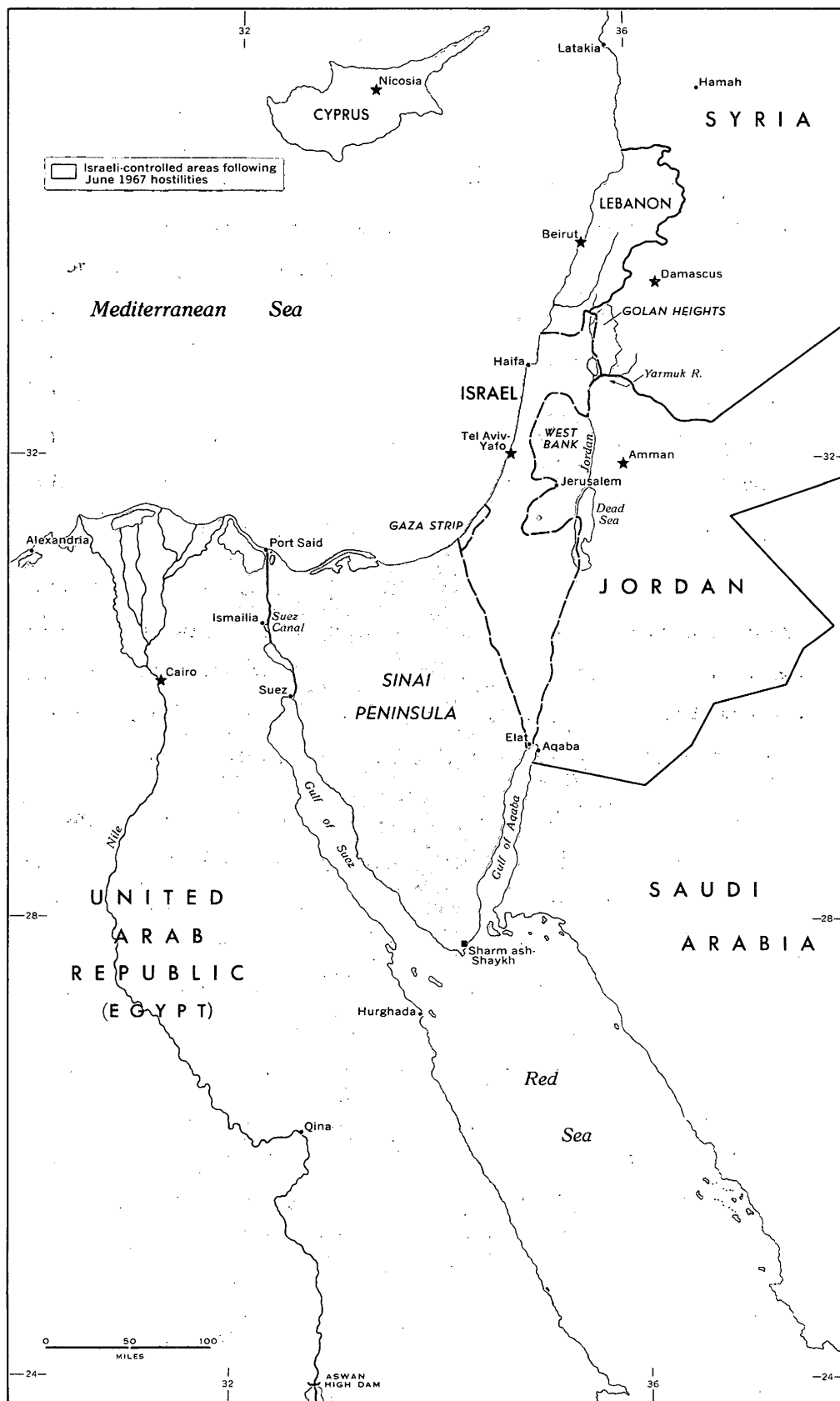
The President's Daily Brief

17 February 1969
(Morning)

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I. MAJOR PROBLEMS

MIDDLE EAST

Soviet diplomats are making it clear that Moscow wants substantive discussions of a political settlement early in the four-power talks. At the UN, Malik has suggested to Ambassador Yost that the four powers work up "guidelines" for carrying out the Security Council resolution of 1967. He said Jarring needed specific guidance more than a general statement of support for his mission. The Soviets' unfolding strategy seems to be to push for a four-power peace plan, which either Jarring or the Security Council would present to the Arabs and Israelis.

At the same time, as Dobrynin has indicated to Secretary Rogers, the Soviets seem anxious to search for the ingredients of a settlement in bilateral talks with the US. They have repeatedly told the Arabs that only a Soviet-US agreement could break the deadlock in the Middle East.

The French and the British are also telling Yost that they think Jarring should be given some substantive guidance by the four powers. For the French, this is yet another example of the similar views Paris and Moscow have on handling the Arab-Israeli issue. The Soviets have always taken a more hopeful line with France than with others on the chances for a settlement. They recently claimed to a French official that they were willing to press the Arabs to accept all aspects of a settlement even before an Israeli withdrawal began.

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EUROPE

Debré's threat to leave the Western European Union (WEU) is the latest sign that the French think Britain and its allies have gotten in some shrewd blows recently. Paris clearly is worried that unless a quick halt is called to the consultations between Britain and the Five, a disturbing precedent will have been established. There has not yet been time for much reaction to Debré's blast, but the British doubtless were somewhat encouraged by recent West German assurances that Bonn would go along with London's efforts as long as the rules of the WEU were strictly followed. (Our reading of the treaty is that the relevant passages are vague enough to permit any of several interpretations. Presumably this could give the Germans a way to back out on the British if they wanted one.)

There is certain to be more pushing and hauling on the issue in the next few weeks. The subject is sure to get heavy treatment both during President Nixon's visit to Europe and during the semiannual Franco-German summit in March.

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Last week's consultations in London are not likely to have too much effect on the four-power meetings on the Middle East. The British probably would carry a bit more weight if they were able to say they had a "Western European" brief. It is still not clear, however, whether they feel bound by what the Five told them in London.

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At Annex today we discuss the situation in Britain.

SOVIET AFFAIRS

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VIETNAM

Thieu, in a conversation with Ambassador Bunker Friday, showed considerable nervousness about the impending consultations between President Nixon and De Gaulle. The South Vietnamese are naturally suspicious of French motivations where Vietnam is concerned. This suspicion has recently been reinforced by the rumormongering of lower level French officials, apparently hoping to undermine US-Saigon relations.



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the Communist delegations in Paris cannot, however, have escaped the notice of the South Vietnamese. Saigon probably really fears that De Gaulle will use his talks with the President to put Communist demands in their most attractive form.

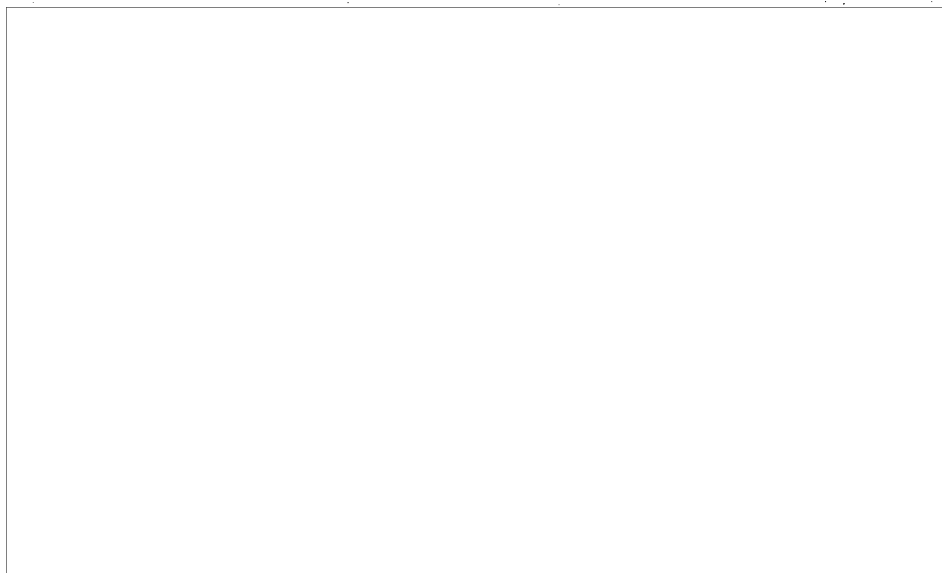
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Military activity was light over the weekend as the Communists generally observed their Tet cease-fire. The enemy remains in a position, however, to launch widespread attacks at any time.

II. OTHER IMPORTANT DEVELOPMENTS

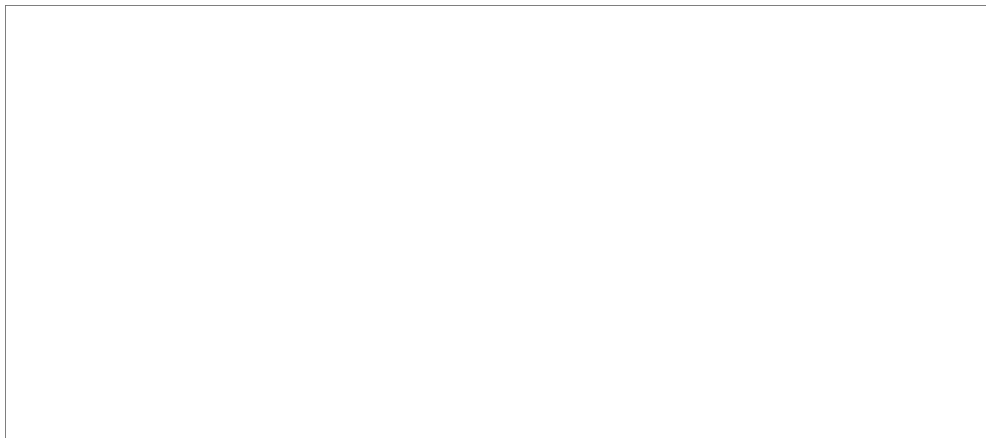
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NIGERIA

Nigeria has bought 30 million rounds (about \$2.3 million worth) of small arms ammunition from the USSR.

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the ammunition will be shipped by sea. Five million rounds may be ready for shipment before 1 March. The Nigerians are also going to take a look at some Soviet antiaircraft guns which are for sale.

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The federal government's attempts to interdict Biafra's one operating airstrip are causing relief organizations increased concern. In one raid last week two relief aircraft were slightly damaged. Even if these raids do not close the airstrip, they could discourage pilots from making nightly arms and relief flights.

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INTERNAL PRESSURES ON THE BRITISH GOVERNMENT

SIGNIFICANCE: The severe economic problems which have be-
deviled Wilson's Labor Government since it took office in
1964 have forced Britain to abandon many of its commit-
ments throughout the world. With the battle to solve the
balance of payments problem still not won and with massive
international debts to repay, Britain will for many years
have to tailor its foreign and defense policies to avoid
large new expenditures. These policies will also become
increasingly aimed at promoting cooperation with Europe, a
goal which will probably begin to push Britain away from
the close relationship that it has had with the US.

* * *

Britain's economic troubles bid fair to bring the elec-
toral defeat of the ruling Labor Party. In numerous by-elec-
tions for Parliament and in local elections during the past
two years, the party has been badly beaten. The public opin-
ion polls during that period have recorded the lowest stand-
ing for a prime minister and a governing party in the 30-year
history of the polls. Many Britons, who once admired Wilson's
mastery of the political arts, now consider him a political
opportunist. At the same time, the polls have been very er-
ratic and strongly influenced by specific developments. The
political recovery of the Labor Party cannot, therefore, be
ruled out. An election is not required until March 1971,
leaving barely time enough for the Wilson government to dem-
onstrate convincingly that it can manage the economy.

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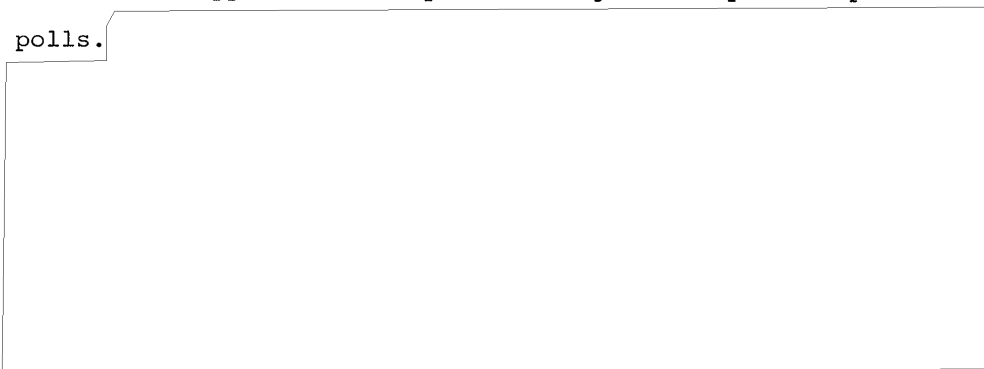
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Despite Labor's misfortunes, no permanent realignment of voter sentiment in favor of the Conservatives appears to have taken place. As an individual, Conservative leader Ted Heath has seldom topped Wilson's poor showing in the public opinion polls.



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Economic Problems

The political fortunes of the Labor Party are tied to the success of the devaluation of sterling (\$2.80 to \$2.40), which took place in November 1967. The underlying weakness of the pound stems from the UK's recurring balance-of-payments deficits and large international debts. In order to secure the maximum benefits to international payments and debt reduction from the devaluation, constraints have been placed on wage increases and credit. These constraints are intended to help protect the gains from the devaluation in price competitiveness and profits and to hold down demand for imports. The authority for certain of these measures lapses in late 1969. In the meantime, failure to achieve marked improvements in the balance of payments would only make public acceptance of a continuation of the present controls more difficult to obtain.

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London has focused its economic policy almost exclusively on correcting its international payments situation. Sustained improvement is vitally necessary to retire some \$7 billion in

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debt accumulated in defense of sterling. The government had hoped that devaluation and related economic measures would cut the UK's balance of payments deficit sharply in 1968. Instead, it rose to about \$1.3 billion, compared with about \$900 million in 1967. The major factor in this setback was the continuation of a sizeable imbalance in Britain's foreign trade. Strong consumer demand brought an unexpectedly high level of imports which offset the gains from a rapid growth in exports. More measures were taken late in the year to stem the flow of imports.

In 1969 the British may achieve a surplus in international payments ranging from \$240 million to \$600 million. The December trade deficit was unexpectedly large, but the January trade deficit was the smallest since devaluation. This improvement should be maintained in early 1969 by the impact of the restrictions applied in November on credit for imports. The measures taken in 1968 to redirect production and investment toward the export industries will also continue to have an effect.

A number of developments, however, could alter this optimistic outlook. For example, a significant slowdown in the growth of world trade or the devaluation of the French franc would hinder British exports, but these external pressures are not likely to be felt within the first quarter of 1969.

Another crucial factor will be the government's ability to restrain excessive increases in wages, while avoiding the kinds of strikes that have been so damaging to the British economy in recent years. In 1968, the government was forced by strike threats to allow exceptions to its 3 1/2% ceiling on wage increases. These breaches were justified by reference

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to high productivity or the long interval since the previous increases, but they have encouraged other unions to press exorbitant demands.

There were no strikes last year with the economic impact of the seamen's strike of 1966 or the dockworker's walkout of 1967, but British industry was nevertheless plagued by innumerable work stoppages, mostly wildcat strikes. In an effort to control labor disputes the government has proposed major reforms in British labor relations, including a 28-day cooling off period for wildcat strikes. These proposals may not be enacted into legislation until 1970.

The effort to improve the UK's balance of payments remains very much a race against time. Sterling is weak and extremely vulnerable to any upset in the international monetary system.

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